

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS RECIFE 000040

SIPDIS

DEPT FOR WHA/BSC, EPSC

E.O. 12958: N/A

TAGS: [EAGR](#) [ENRG](#) [BR](#)

SUBJECT: SWEETER ENERGY? NORTHEAST HOPES FOR ETHANOL

1. Summary: Sugar has dominated Brazil's Northeast for centuries, but the boom in ethanol production for fuel has yet to fire up their economy. Only 15 percent of Brazil's ethanol comes from the Northeast compared to 85 percent from the South, even though the harvest seasons are complementary and costs may be lower here, according to the Pernambuco sugar industry spokesman Renato Cunha. Yet Brazil's regulations give the less developed Northeast preferential treatment in exporting ethanol. As the U.S. looks for alternatives to oil, Brazil, the leading producer of ethanol, would be the obvious place to go. Cunha predicts a better future for Pernambuco's sugar producers and more investment in irrigated lands. End Summary

2. With Brazil facing a shortage of ethanol to fuel its "flex" cars and cut oil consumption, the traditional sugar-producing Northeastern states might be expected to be happily distilling away. But the chairman of the Sugar and Alcohol Industry Association in Pernambuco (SINDACUCAR), Renato Cunha shakes his head. The harvest season just ended, cane production was less than expected due to late rains, and distilleries will remain idle until the next crop which could begin in August. With 20 sugar refineries in his organization, Cunha knows the sugar-to-ethanol business. He told the Consul March 7 that the Northeast has the potential to export much more ethanol in the future, even though the South of Brazil is by far the largest producer.

3. The harvest season in Sao Paulo and the South is April to November, when 85 percent of the ethanol is produced; the Northeastern states supply only 15 percent, most from the states of Pernambuco and Alagoas, in the period from August to February. "But the law allows the Northeast a preference for exports of ethanol in order to compensate for social conditions," Cunha said, pulling out his copy of the law regulating the internal market of ethanol (Law 9,362 December 13, 1996). Article 7 states that "sugar-derived products destined for preferred markets will be given to the North/Northeast region, taking into consideration its socio-economic stage." According to Cunha, export markets are "preferred" since they offer higher prices, and the Northeast producers could take advantage of lower labor costs and proximity to sea ports to price their ethanol at competitive rates. The tax on ethanol in Pernambuco is 12 percent versus 25 percent in Sao Paulo, according to SINDACUCAR.

4. In 2005, Brazil exported 261 million liters of ethanol to the American market, despite the import duties of US\$0.54/per gallon. The potential is certainly bigger, as Brazil is the world's largest ethanol producer. According to data reported in the Brazilian press, the average price per liter in southern Brazil (using the January rate of exchange) is 25 cents (about one dollar per gallon), while U.S. corn-based ethanol costs 33 cents per liter (about \$1.32 a gallon.)

5. The issue for the Northeastern producers is how to increase their output efficiently, which means increased sugar cane acreage. In Cunha's vision, one backed by local politicians including President Lula's Minister of National Integration Ciro Gomes, the answer is irrigation of the "sertao" dry lands with San Francisco River water. (The fruit and wine center around Petrolina is already a showcase of desert transformation, attracting foreign investment.) This major water project, known as the "Transposition," would carry water by canals as far as Ceara and Rio Grande do Norte, but Cunha explained how Pernambuco would get its own "sugar canal" to irrigate rich soil in the western region of Pernambuco. (Comment: This is not likely to happen any time soon since the grand water project is tied up in court, being fought by the states upstream.) But if the weather cooperates this year, it will still be at least six months before Pernambuco's distilleries fire up with their bagasse (cane hulls or waste products that produce thermal energy) to produce more ethanol.

PAGE